Market Commentary Monday, September 28, 2020

September 28, 2020

EXECUTIVE SUMMARY

Week in Review – September Swoon Continues
Emotional Roller Coaster – Tech Selloff Accelerates…Until it Doesn't
Sentiment – Contrarian Buy Signal Issued on September 23
Interest Rates – Bonds Love Affair Continues Despite Record Low Yields
Income – Dividend Payouts Have Risen Over Time
Econ News – Powell Says U.S. Economy Will Eventually Recover; Robust Housing Numbers
Contested Election – Year 2000 Presidential Stalemate and Stocks
Stock News – Updates on IP, WRK, ALB, JWN, INT, TNP & JBL

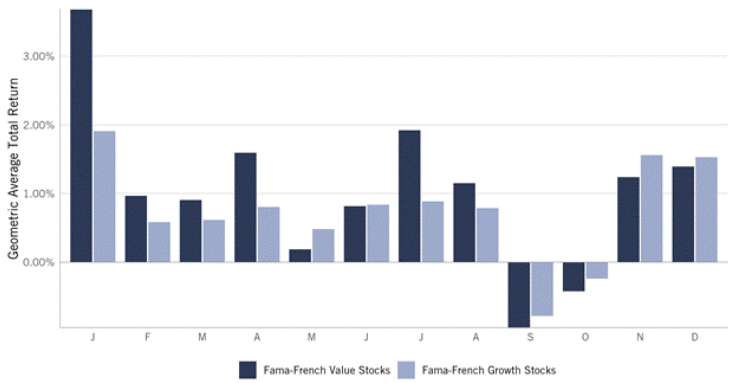
Market Review

With deep value stocks taking the worst of the blow as the S&P 500 Pure Value index skidded 5.42% over the five days, the September swoon continued last week,…

THE PRUDENT SPECULATOR

SEPTEMBER HISTORICALLY THE WORST MONTH OF THE YEAR

While the average decline has been relatively tame over the last nine decades, and the period actually has been positive on average over the last 15 years, September is one of only two months, October the other, where returns on stocks have been negative dating back to 1927.



From 12.31.27 through 12.31.19. Geometric average. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

Scary September Last 15 Years

	Russell 3000 Growth Index	S&P 500 Index	Russell 3000 Index	Russell 3000 Value Index
Average	0.52	0.68	0.61	0.71
2019	-0.04	1.87	1.76	3.67
2018	0.33	0.57	0.17	0.00
2017	1.62	2.06	2.44	3.26
2016	0.45	0.02	0.16	-0.13
2015	-2.78	-2.47	-2.91	-3.05
2014	-1.75	-1.40	-2.08	-2.43
2013	4.66	3.14	3.72	2.76
2012	2.04	2.58	2.63	3.20
2011	-7.70	-7.03	-7.76	-7.83
2010	10.92	8.92	9.44	7.99
2009	4.43	3.73	4.19	3.95
2008	-11.57	-8.91	-9.41	-7.13
2007	4.08	3.74	3.64	3.19
2006	2.57	2.57	2.24	1.90
2005	0.49	0.81	0.87	1.26

% Total Return August 31 - September 30. Source: Kovitz using data from Bloomberg.

…with the setback from the all-time that was reached on September 2 for the mega-capitalization-stock-dominated S&P 500 almost hitting correction territory when the downturn reached 9.6% on a closing basis on September 23.

VOLATILITY IS NORMAL: VALUE/DIVS WIN RACE

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	111.3%	977	27	3.4	3/23/2020	9/2/2020
17.5%	66.8%	570	39	2.3	3/23/2020	9/2/2020
15.0%	66.5%	555	45	2.0	3/23/2020	9/2/2020
12.5%	44.3%	333	72	1.3	3/23/2020	9/2/2020
10.0%	34.9%	244	98	0.9	3/23/2020	9/2/2020
7.5%	23.7%	148	156	0.6	3/23/2020	9/2/2020
5.0%	14.8%	72	304	0.3	6/11/2020	9/2/2020

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.4%	286	26	3.5	2/19/2020	3/23/2020
-17.5%	-30.4%	217	38	2.4	2/19/2020	3/23/2020
-15.0%	-28.4%	189	44	2.1	2/19/2020	3/23/2020
-12.5%	-22.8%	138	71	1.3	2/19/2020	3/23/2020
-10.0%	-19.6%	102	97	0.9	2/19/2020	3/23/2020
-7.5%	-15.5%	65	156	0.6	9/2/2020	9/23/2020
-5.0%	-10.9%	36	304	0.3	9/2/2020	9/23/2020

From 02.20.28 through 09.23.20. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	12.8%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.5%	18.1%
Non-Dividend Paying Stocks	9.1%	29.4%
Long-Term Corporate Bonds	6.2%	7.6%
Long-Term Gov't Bonds	5.6%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

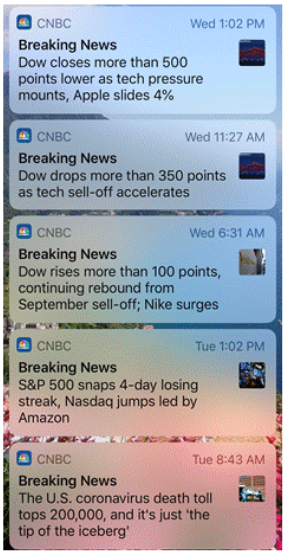
From 06.30.27 through 08.31.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

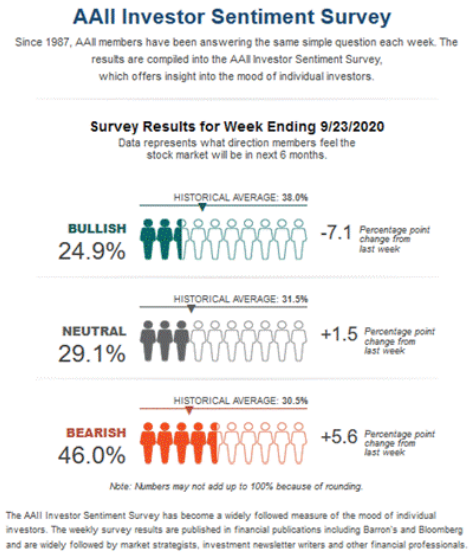
No doubt, trips south are an inevitable part of the investment process as 5% or greater drops without an intervening 5% rebound have happened 304 times over the past 92 years, while the count of 7.5% declines under the same terms has been 156. Of course, stocks have proved to be very rewarding over the long term with handsome returns for those who remember that the secret to success is not to get scared out of them.

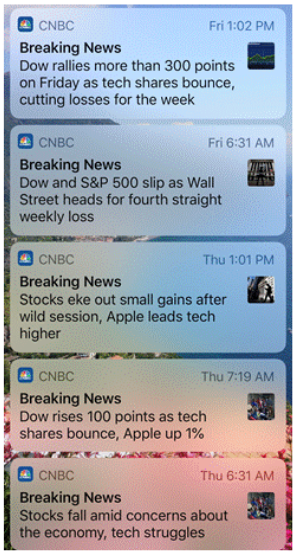
THE PRUDENT SPECULATOR

INVESTING IS AN EMOTIONAL ROLLER-COASTER

The CNBC app told us that stocks plunged on Wednesday as the "tech sell-off accelerates," and they fell on Thursday AM on "concerns about the economy, tech struggles," only to see gains as "Apple leads tech higher" on Thursday PM and a big rally on Friday as "tech shares bounce." No doubt, it is tough to make sense of short-term market moves and sadly many seem to zig when they should zag. Alas, AAII folks became very Bearish just in time to miss the two-day recovery, another illustration that the only problem with market timing is getting the timing right.







Unfortunately, that has been easier said than done for many investors who should remember that the only problem with market timing is getting the timing right. Obviously, a few days does not prove a point, but it was interesting that Bank of America reported that U.S equity mutual funds and exchange-traded funds saw outflows of $26.9 billion in the week ending Wednesday. The exodus represented the biggest weekly outflow in nearly two years, and many of these folks missed out on the two-day bounce on Thursday and Friday. We don't find this to be a big surprise as history suggests that it often can pay to be greedy when others are fearful.

THE PRUDENT SPECULATOR

AAII SENTIMENT – CONTRARIAN BUY SIGNAL

With the numbers illustrating that folks often zig when they should zag, far more folks are Bearish today than normal and far less are Bullish than usual, putting the AAII Bull-Bear Spread for the week ending 9.23.20 at -21.1, one of the lowest readings in the 33-year history of this sentiment indicator. Not surprisingly, forward returns have been very good, on average, when investors are nervous.

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 7.8										
BELOW	-54.0	7.8	865	0.26%	0.22%	1.25%	1.11%	3.50%	3.11%	6.36%	5.63%
ABOVE	7.8	62.9	863	0.15%	0.13%	0.45%	0.36%	1.83%	1.57%	4.57%	4.09%
	Ten Groupings of 1728 Data Points										
1	-54.0	-15.2	172	0.56%	0.49%	2.26%	2.02%	5.61%	5.05%	8.69%	7.50%
2	-15.1	-7.5	173	0.29%	0.26%	0.86%	0.73%	3.46%	3.10%	5.90%	5.17%
3	-7.5	-1.7	173	0.31%	0.28%	1.56%	1.46%	3.34%	2.95%	6.93%	6.30%
4	-1.6	3.0	184	0.10%	0.07%	1.01%	0.92%	2.76%	2.40%	6.09%	5.58%
5	3.0	7.7	161	0.02%	-0.01%	0.50%	0.39%	2.27%	2.01%	4.10%	3.54%
6	7.8	12.0	179	0.11%	0.09%	0.54%	0.42%	1.80%	1.56%	5.46%	5.08%
7	12.0	16.2	167	0.15%	0.13%	0.49%	0.39%	2.25%	1.99%	4.93%	4.39%
8	16.3	22.0	181	0.18%	0.16%	0.73%	0.65%	1.97%	1.70%	5.63%	5.20%
9	22.0	29.2	165	0.07%	0.05%	0.25%	0.16%	1.84%	1.55%	4.12%	3.53%
10	29.2	62.9	173	0.26%	0.24%	0.26%	0.19%	1.37%	1.14%	2.63%	2.19%

From 07.31.87 through 9.17.20. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Of course, outflows from domestic equity funds is nothing new, as the investor love affair with bonds has continued virtually without interruption over the last six years. Indeed, since the start of 2015, data from the Investment Company Institute shows that more than $700 billion net has flowed out of U.S. stock and ETFs, with more than $1.3 trillion net flowing into bond funds and exchange traded funds,…

THE PRUDENT SPECULATOR

BONDS REMAIN STUNNINGLY POPULAR

With the S&P 500 having bounded back from the March 23, 2020 lows, many think folks are infatuated with U.S. equities, but data from the ICI show that Bonds, aside from a big hiccup in March, continue to garner all of the love, despite record low interest rates.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Jul-16	292	33,575	Jan-18	10,778	46,287	Jul-19	-7,889	44,811
Feb-15	5,547	30,321	Aug-16	-9,956	30,859	Feb-18	-41,444	2,706	Aug-19	-29,909	22,304
Mar-15	-1,494	4,905	Sep-16	-5,713	24,669	Mar-18	-22,152	14,148	Sep-19	-4,650	38,482
Apr-15	-34,681	11,027	Oct-16	-23,109	13,855	Apr-18	-7,403	24,176	Oct-19	-24,646	43,187
May-15	-17,287	5,010	Nov-16	22,993	-13,289	May-18	10,068	11,749	Nov-19	-11,677	44,480
Jun-15	-7,023	6,324	Dec-16	18,859	-4,142	Jun-18	-21,004	16,995	Dec-19	-27,502	50,733
Jul-15	-14,864	-1,255	Jan-17	5,097	31,037	Jul-18	1,007	22,495	Jan-20	-24,546	73,855
Aug-15	-18,569	-18,122	Feb-17	17,613	33,991	Aug-18	-6,660	17,219	Feb-20	-28,222	25,064
Sep-15	-4,725	-10,849	Mar-17	9,411	36,562	Sep-18	886	18,526	Mar-20	-7,487	-273,714
Oct-15	-807	15,397	Apr-17	-8,266	22,064	Oct-18	-9,657	-27,700	Apr-20	2,661	14,672
Nov-15	654	-5,573	May-17	-10,725	33,070	Nov-18	2,783	-7,459	May-20	-20,932	73,168
Dec-15	476	-25,043	Jun-17	-7,944	29,372	Dec-18	-28,953	-49,512	Jun-20	-24,827	100,075
Jan-16	-27,222	7,686	Jul-17	-12,518	29,139	Jan-19	-21,195	29,308	Jul-20	-46,515	98,496
Feb-16	-9,108	11,915	Aug-17	-22,771	25,078	Feb-19	3,632	45,138	Aug-20	-58,318	85,358
Mar-16	7,711	29,296	Sep-17	-9,775	33,440	Mar-19	-3,654	38,412			
Apr-16	-12,610	22,114	Oct-17	3,166	36,110	Apr-19	-5,307	40,565			
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332			
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	**Totals:**	**-714,449**	**1,314,032**

…despite the extraordinarily low interest rate environment,…

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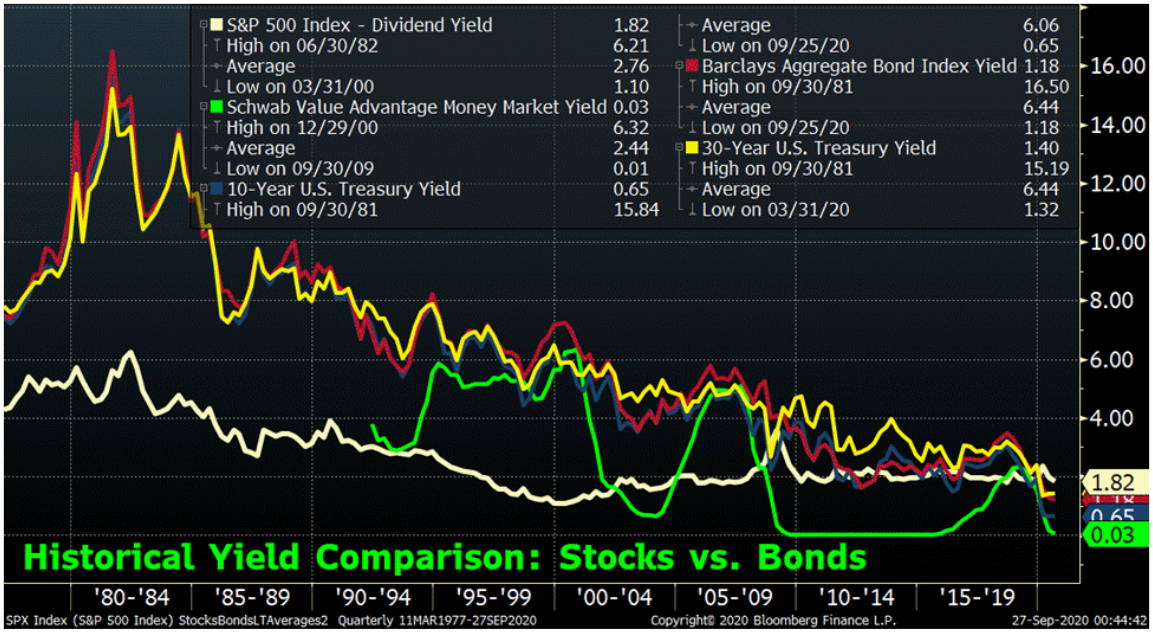
EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.82%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than the Barclays Aggregate Bond Index and some 60 times the yield of a "generous" Money Market Fund**!



…whereby dividend yields on equities compare very favorably, especially as fixed income coupons are generally fixed, while payouts on stocks have risen over time,…

THE PRUDENT SPECULATOR

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, as we are seeing today in the wake of COVID-19 and the Great Lockdown, but the historical data show that Corporate America has a long history of raising payouts. In fact, per share dividends for the S&P 500 are even likely to be higher this year.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2020 (as of 9.24.20)	197	7	25	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$61.30
2020 (Est.)	$58.79
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73

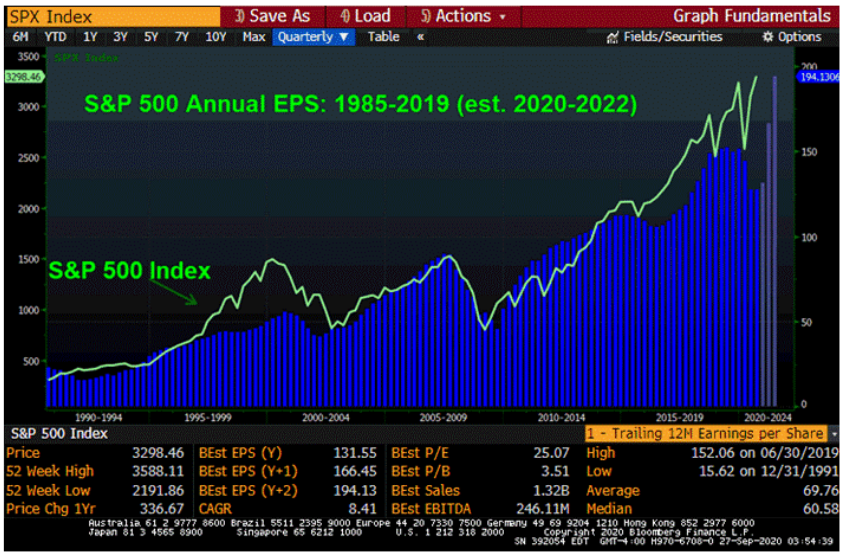
Source: Bloomberg. As of 9.25.20

…as corporate profits have been on a long-term uptrend, albeit with a few stumbles along the way, such as what we are seeing in 2020.

THE PRUDENT SPECULATOR

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

Q2 earnings reporting season was very good, relative to analyst projections that had been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be miserable, but a significant rebound is projected next year.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$45.00	$164.30
9/30/2021	$42.50	$154.73
6/30/2021	$40.04	$144.24
3/31/2021	$36.76	$130.99
12/31/2020	$35.43	$113.73
9/30/2020	$32.01	$117.48
6/30/2020	$26.79	$125.28
ACTUAL		
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

Source: Standard & Poor's. As of 9.24.20

That said, given that COVID-19 and the Great Lockdown produced the worst economic downturn since the Great Depression, company earnings, on average, have held up remarkably well, no doubt thanks to support from Congress and the Federal Reserve. And speaking of both, Fed Chair Jerome H. Powell was on Capitol Hill last week, concluding his prepared remarks,…

FED CHAIR JEROME H. POWELL REMARKS TO CONGRESS 9.23.20 & 9.24.20

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for the opportunity to update you on our ongoing measures to address the hardship wrought by the pandemic. The Federal Reserve, along with others across government, is working to alleviate the economic fallout. We remain committed to using our tools to do what we can, for as long as it takes, to ensure that the recovery will be as strong as possible, and to limit lasting damage to the economy.

Economic activity has picked up from its depressed second-quarter level, when much of the economy was shut down to stem the spread of the virus. Many economic indicators show marked improvement. Household spending looks to have recovered about three-fourths of its earlier decline, likely owing in part to federal stimulus payments and expanded unemployment benefits. The housing sector has rebounded, and business fixed investment shows signs of improvement. In the labor market, roughly half of the 22 million payroll jobs that were lost in March and April have been regained as people return to work. Both employment and overall economic activity, however, remain well below their pre-pandemic levels, and the path ahead continues to be highly uncertain. The downturn has not fallen equally on all Americans; those least able to bear the burden have been the most affected. The rise in joblessness has been especially severe for lower-wage workers, for women, and for African-Americans and Hispanics. This reversal of economic fortune has upended many lives and created great uncertainty about the future.

A full recovery is likely to come only when people are confident that it is safe to reengage in a broad range of activities. The path forward will depend on keeping the virus under control, and on policy actions taken at all levels of government.

Since mid-March, we have taken forceful action, implementing a policy of near-zero rates, increasing asset holdings, and standing up 13 emergency lending facilities. We took these measures to support broader financial conditions and more directly support the flow of credit to households, businesses of all sizes, and state and local governments. Our actions, taken together, have helped unlock more than $1 trillion of funding, which, in turn, has helped keep organizations from shuttering, putting them in a better position to keep workers on and to hire them back as the economy continues to recover.

…with, “Our economy will recover fully from this difficult period. We remain committed to using our full range of tools to support the economy for as long as is needed.”

THE PRUDENT SPECULATOR

SIGNIFICANT BOUNCE IN U.S. GDP EXPECTED IN Q3

While a rebound is almost a mathematical certainty, given the magnitude of the massive Q2 economic contraction, the Atlanta Fed is now projecting a 32.0% increase in GDP in Q3 on an annualized basis.

To be sure, the epic rebound in Q3 will be gigantic, but the economy, especially the jobs market, has a long way to go before there is a full recovery,…

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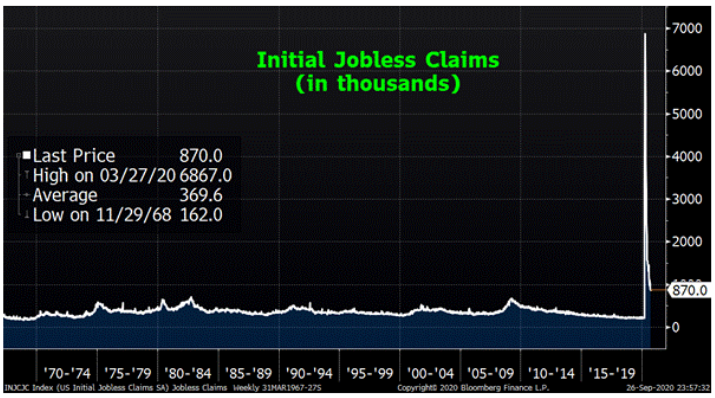
MIXED ECONOMIC NUMBERS



The headline number for durable goods orders in August trailed estimates with a gain of 0.4%, the fourth straight monthly rise. Excluding volatile transportation orders, orders rose 0.4%, while so-called "core" capital goods orders jumped 1.8% to a level above the pre-COVID-19 trend. That said, first-time filings for unemployment benefits continue to be massive, with 870,000 claims in the latest week, bringing the total for the last 27 weeks to 62 million.

…even as the numbers out on housing last week were terrific.

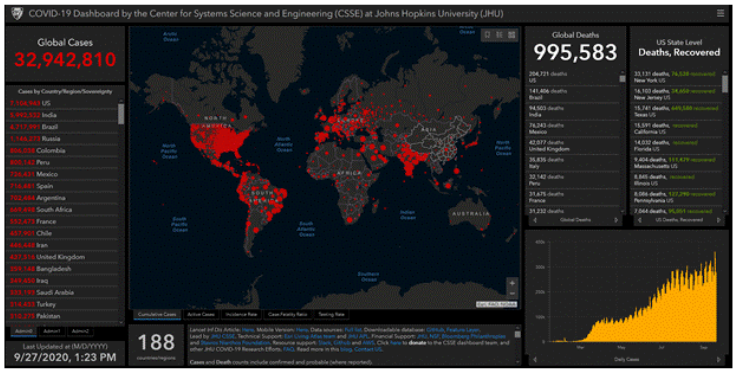
THE PRUDENT SPECULATOR

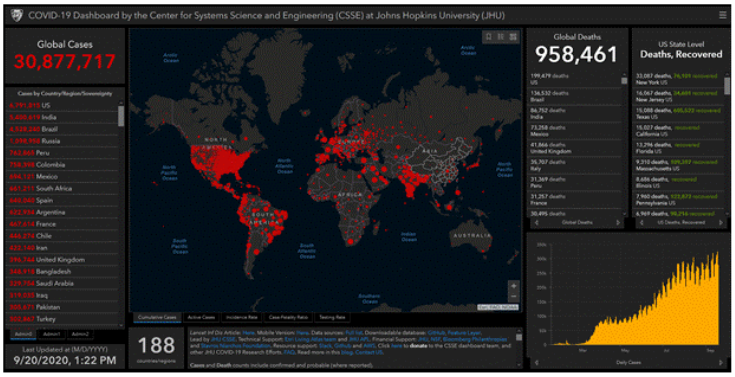
STRONG HOUSING BOUNCEBACK CONTINUES

Sales of new homes soared during August, jumping 4.8% to a seasonally adjusted annual rate of 1,011,000, the strongest showing since September 2006. No doubt, microscopic mortgage rates are greatly helping the housing market, as even with the impact of COVID-19 and the Great Lockdown, sales of existing homes rose 2.4% in August to a seasonally adjusted annual pace of 6.00 million, also the best level since 2006.

Clearly, developments on the health front will be critical to the near-term market direction, with renewed surges in virus cases last week offset by continued positive news on vaccines,…

COVID-19 GLOBAL SPREAD





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With access to testing remaining high, there was another jump of more than 2.0 million in global COVID-19 confirmed cases in the latest week. Case counts have surged as economies have reopened, social distancing has waned and mask wearing has been inconsistent, and the U.S. is now up to nearly 205,000 fatalities. While deaths obviously lag cases, and Europe and the United Kingdom have seen new spikes in those diagnosed with the virus, the increase in the weekly fatality count dropped a bit the last two week from the 40,000 level of the prior four weeks. No doubt, the approaching flu season will represent another health risk.

…so we remain braced for additional volatility, especially as the 2020 Presidential Election draws closer. On that score, we know that many are worried about a contested result, but while there is never any assurance that past is prologue, we did have such an outcome 20 years ago, with Value stocks weathering that storm fairly well.

THE PRUDENT SPECULATOR

WASHINGTON STALEMATE 2000 AND STOCK RETURNS

Another supposed near-term headwind for equities is the possibility of a contested election this November. Said event happened in 2000 (Bush vs. Gore), with positive relative consequences...for Value stocks.

Market of Stocks - Contested Election

Total Returns Matrix Post 2000 Presidential Election Day (11.07.00)

One Week After Election Day	One Month After Election Day	Through Supreme Court Ruling Bush v. Gore 12.12.00	Through Inaug-uration Day 01.20.01	Three Months After Election Day	Six Months After Election Day	12 Months After Election Day	Through the End of 2001	36 Months After Election Day	60 Months After Election Day	Equity Index
-2.40	-2.90	-1.52	-3.05	0.30	0.57	-11.33	-6.67	-4.88	7.17	Dow Jones Industrial Average
-2.41	-2.97	-1.43	-2.70	-0.74	-3.84	-14.45	-11.24	-12.99	14.34	New York Stock Exchange Composite
-6.32	-16.53	-12.26	-12.85	-10.89	-18.68	-30.87	-23.14	-21.12	-7.80	Russell 2000 Growth
-0.99	-0.50	1.77	6.93	12.79	14.79	10.58	22.74	51.77	100.64	**Russell 2000 Value**
-3.73	-8.75	-5.44	-3.24	0.59	-2.52	-11.60	-1.80	11.89	39.40	Russell 2000
-6.23	-12.44	-8.87	-13.19	-16.68	-25.84	-36.56	-34.41	-40.50	-31.98	Russell 3000 Growth
-1.59	-1.78	-0.34	-0.64	2.81	2.12	-6.62	-2.43	1.58	32.01	**Russell 3000 Value**
-3.90	-7.09	-4.59	-6.89	-6.92	-11.86	-21.79	-18.71	-20.65	-3.09	Russell 3000
-1.64	-2.47	-0.67	1.85	5.30	4.77	-5.07	0.99	9.55	42.30	S&P 500 Equal Weighted
-3.38	-6.04	-4.11	-6.00	-6.06	-11.23	-21.05	-18.60	-22.92	-7.32	S&P 500
-4.64	-8.77	-6.54	-13.62	-14.81	-21.91	-28.02	-25.93	-32.28	-23.16	S&P 500 Growth
-2.09	-3.27	-1.64	1.83	3.06	0.10	-14.31	-11.61	-13.59	9.93	**S&P 500 Value**
-6.65	-15.09	-11.62	-7.95	-11.43	-21.05	-35.83	-31.71	-36.27	-19.82	S&P 500 Pure Growth
0.07	-0.57	0.96	2.90	11.41	16.48	12.20	20.59	26.30	96.75	**S&P 500 Pure Value**
2.72	0.98	6.61	5.16	5.53	8.77	10.51	18.43	25.14	39.63	Berkshire Hathaway B

Forward Total Return Calculations Stating on 11.07.20. Source Kovitz using data from Bloomberg

Stock Updates

Jason Clark, Chris Quigley and Zach Tart look at seven of our companies that had developments of sufficient importance to merit a Target Price review. Keep in mind that all stocks are rated as a "Buy" until such time as they are a "Sell." A listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Shares of **International Paper** (IP – $41.16) and **Westrock** (WRK – $35.81) rose sharply Friday (+5.0% and +8.3%, respectively) on the heels of news from industry insiders that IP has informed customers that it will be increasing the price of containerboard shipments by $50 a ton. Analysts that follow the two companies have noted that the containerboard market has been "tight" for weeks, so it is widely expected that Westrock and other competitors will follow suit in raising prices. The price increase is reported to be the first of its kind for IP in 2.5 years. If all the major players partake in the hike, we wouldn't be surprised to also see a price increase in boxboard.

The coronavirus pandemic has been a mixed blessing for IP and WRK with demand for packaging rising, while printing paper demand has sharply declined with plenty of people still working from home. That said, there seemingly has been a push forward in online shopping for even everyday goods because of the pandemic, with people that infrequently or never participated in online purchases now doing so at an accelerated clip. While there will continue to be headwinds and the potential for additional competition, we are constructive on both firms working to optimize their businesses and improve operating cost structures. We have raised our Target Prices for both IP and WRK, and they now stand at $56 and $58, respectively.

Shares of still-stellar-2020-performer **Albemarle** (ALB – $84.52) plummeted 13% last week following electric vehicle maker Tesla's Battery Day. At the widely anticipated event, Tesla CEO Elon Musk announced that his company believes that in time it will be able to reduce the amount of lithium used per battery, and that he wanted to make a foray into lithium mining to more vertically integrate his company. Lithium accounts for 37% of ALB's Q2 revenue.

We were surprised by the extreme negative reaction as investors seemed to respond to the news as if Tesla was the only electric car manufacturer in the world. While less lithium per battery would be an advancement that would at face value be an operational headwind for ALB and its competitors, we remind readers that Tesla has made made many statements that have yet to materialize and timelines have often slipped. Further, we note that Tesla is not the only manufacturer making electric and hybrid autos in the world. The majority of automakers are working vigorously to provide numerous selections up and down the value chain (economy to luxury to extreme sport). Additionally, technology that would require less lithium per battery would likely lower the price of EV and hybrid offerings and replacement batteries, helping to spur demand.

True, we put nothing past Mr. Musk and wouldn't be surprised to see his company eventually get into the lithium game. This won't be a near-term issue, however, nor will it be easily accomplished. Furthermore, a greater ability to use EVs (longer distance between charging and many more charging stations) and potential "green" initiatives such as California Governor Gavin Newsom announcing last week that by 2035 new gas combustion vehicles will no longer be allowed to be sold in California should further bolster demand. While we might question whether Mr. Newsom's announcement can hold though the courts and the court of public opinion, we actually see the potential for intermediate and long-term demand for lithium increasing as the global expansion of electric and hybrid vehicles continue.

We continue to think that over the long-term ALB will benefit from a major positive catalyst in lithium batteries as electric vehicle adoption increases and the world's leading car companies race to get desirable EVs to market. In addition, lithium is used in backup and storage batteries for the power grid. Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, ALB generates steady cash flows from its refining catalyst business. Our Target Price for ALB now stands at $106.

Shares of our recently recommended department store operator **Nordstrom** (JWN – $11.92) suffered last week as bad news for the retail industry continued to weigh on the retailer. While

concerns about rising COVID-19 cases led to worries that stores could again be forced to close, there is also speculation that an early fall may chill in-store shopping and there have been wider bond spreads on retail company debt.

While we admittedly aren't epidemiologists or weather forecasters, we think that Nordstrom has the financial wherewithal to persevere through a difficult fall and winter, and even if there are problems getting to the stores, we put a lot of importance on JWN's online presence. Also, the annual Anniversary Sale was last month, which is historically a major event, so we expect to see a good showing in fiscal Q3 and improving conditions in the coming quarters as folks not only start spending more, but also have events for which to buy new shoes and apparel. Of course, it is hard to predict the future and it hurts to stumble out of the gate, but we remind ourselves that some of our largest winners in our 43 years have tumbled in the first part of our ownership.

Our Target Price for JWN is $32.

Shares of the thinly traded fuel supplier **World Fuel Services** (INT – $21.24) skidded more than 16% over the last 5 trading days as small-cap and energy sector stocks were badly bruised. We acknowledge that plenty of near-term uncertainty remains for INT, given that its customers operate in some of the industries hardest hit by COVID-19. As a fuel broker that typically draws a third to a half of revenue from the aviation industry, sales have taken a shellacking this year, while a material turning point may not occur until there is widespread access to a vaccine.

Despite the operational difficulties and challenged top line, we point out that nearly all the firm's expenses are of the variable type. And after the sale of its payments subsidiary last quarter, cash on the books amounts to over two years' worth of net income experienced in recent years. Of course, undervalued shares can always become more undervalued, but we continue to think INT has staying power until conditions improve. Shares now trade at nearly 8 times the 2021 consensus analyst EPS estimate and the dividend yield is 1.9%. Our Target Price for INT is now $43.

Greek shipping concern **Tsakos Energy Navigation** (TNP – $7.25) released its Q2 financials last week. Shares plummeted nearly 15% on the week even as the firm's bottom line results of $1.07 per share trounced analyst estimates, while net charter revenue was some 40% higher year-over-year. Management continued to upgrade the fleet, exchanging four vessels with an average age of 14 years with new ones, of which three have already been delivered. The move is expected to add a minimum of $180 million of earning capacity over five years of employment. Tsakos has reduced debt by $300 million over the past four years and repaid $50 million of outstanding Series B preferred shares last year, while the company expects to retire $50 million of Series C preferreds next month.

TNP COO George Saroglou commented on the past six months, "It has been rollercoaster year for the tanker industry and the world as a result of the COVID-19 pandemic and its economics, social and health-related effects. We continue to successfully navigate the logistical and regulatory challenges of COVID-19 with minimal impact to our operation so far, thank God. It's a big effort. The industry as a result of the pandemic and the lockdowns, the border closures and reduced airline capacity has experienced significant challenges in crew changes. We are pleased

to report that we have safely changed out the number of crew members in our fleet. We want to take this opportunity to thank one more time and tell how proud we are for all our seafarers and onshore personnel for their hard work, patience, perseverance and professionalism during this time of crisis."

The firm continues to operate its strategy of covering expenses with fixed charters, while seeking additional upside from spot market exposure. Mr. Saroglou commented on TNP's current arrangement, "Thanks to the profit-sharing element that is a big portion of our fleet, TEN benefits further where market conditions are strong, like the freight market environment of the first half of the year. For every $1,000 increase in spot rates, we have a $0.48 impact in the annual EPS, based on the number of TEN vessels that currently have exposures in the spot market." Management expects a low industry order book for new vessels, IMO 2020 regulations designed to reduce fuel sulfur content and a recovering economic environment post COVID-19 to benefit the fleet in years to come.

There is no doubt that being invested in TNP shares over the last few years has tested our patience, despite collecting substantial income along the way. We also were a bit perplexed at the decision to execute a 1-for-5 reverse split back in June. That said, we are encouraged by the firm's priority to control debt and pursue conservative chartering structures that cover fixed costs with upside through profit sharing. Shares now offer a dividend yield of 6.9% and we have adjusted our Target Price to $23.

Electronic manufacturing services firm **Jabil Inc.** (JBL – $33.44) earned an adjusted $0.98 per share in fiscal Q4 2020 (vs. $0.66 est.). JBL had total revenue of $7.3 billion, versus the $6.3 billion estimate. Shares rose 7% following the announcement but were roughly flat for the week. Jabil reported fewer COVID-19 disruptions than expected in the quarter and strong demand for mobility, 5G wireless and cloud products as a result of a major shift in IT infrastructure. We agree with JBL management that trends in IT are evolving at a rate never seen before, a phenomenon caused by accelerated timelines and heavier reliance on cloud computing networks.

CEO Mark Mondello commented, "For fiscal '21, we plan to deliver a core operating margin of 4% on revenues of $26.5 billion. This mirrors what we committed to you one year ago. It's important to note that the 4% operating margin on the $26 billion correlates to $4 in core EPS, again, mirroring what we said last September. Three primary actions give us confidence in our outlook: one, the improved makeup of our commercial portfolio; two, reduced levels of overhead; and three, lower costs associated with COVID. These 3 actions sum to roughly $180 million to $190 million of additional income year-on-year FY '20 to FY '21. If I step back and think about where we're at today, much of our success here at Jabil is because we place the needs of the customer first, and we do so through nonparochial sharing of all resources and all capabilities. I think about this sharing as frictionless collaboration. When this collaboration is combined with the experience and actions of our team, you have a winning recipe, a recipe which delivers optimized solutions and services to our customers."

CFO Michael Dastoor detailed, "Today, our business serves a diverse plan of end markets in areas that provide confidence in future earnings and cash flows. We have deep domain expertise complemented by investments we made in capabilities, all of which gives us confidence in our

ability to deliver [on our outlook]. And importantly, our balanced capital allocation framework approach is aligned and focused on driving long-term value creation to shareholders."

JBL's revenue in the quarter was the highest Q4 in the company's history and the second-best quarter ever (coming in just shy of $7.5 billion of revenue in fiscal Q1 2020). From early on in the pandemic, JBL management appreciated the severity of what was likely to come and quick action gave the company a head start on its competitors. Of course, the nature of Jabil's business helps too. While nobody is out of the COVID woods yet, we think JBL is well-positioned to benefit from intermediate to long-term tailwinds in cloud, 5G and the electrification of automobiles. Analysts expect earnings in fiscal 2021 to come in near $4.00 (compared to $2.90 in fiscal 2020), and they are expected to grow to $4.35 in 2022. The company's demonstration of strong performance across a diversified business platform, reasonable valuation (8.4 times 2021 EPS) and generous capital return program are positives, and we have hiked our Target Price to $52.